FARMERS' NEWSLETTER
Cotton

January 80/C-10

With the harvest nearly complete in most sections of the Cotton Belt, concerns turn to marketing the unsold portion of your 1979 crop and making plans for 1980. This letter looks at factors you will want to consider in your decisions and provides details on the recently announced 1980 upland cotton program.

Marketing Your 1979 Crop

If you still have current-crop cotton to sell, you'll have to decide if prices look good now or if you think they'll turn higher later on. This, of course, will determine whether you

- sell now,
- fix a price and deliver at a later date, or
- put all or part of your crop under Government loan.

And don't forget storage costs. Even if prices increase, will they rise enough to offset costs of storing your crop?

Supply-Demand Factors

As you probably know, unlike for other commodities, USDA is prohibited from forecasting cotton prices. We can, however, point out the key factors affecting prices and their likely influence in the near future.

To do this, let's look at how prices in recent years have responded to changes in supply and demand. During the marketing year that began in August 1976, 83 percent of the available U.S. cotton supplies were exported or processed in domestic mills. That season, the spot market price for SLM 1-1/16-inch cotton averaged 71 cents a pound.

The supply was increased in 1977 by the large crop that year. Foreign markets and U.S. mills took only 76 percent of supplies, and prices dropped to 53 cents.

Supplies tightened the following season when the 1978 crop fell 25 percent below a year earlier to 10.8 million bales. Mill use and export sales claimed 84 percent of supplies during the marketing year that began in August 1978 and prices climbed to 62 cents a pound.

As the chart on page 2 indicates, domestic and export demand for U.S. cotton during the current marketing year may again account for about 82 to 86 percent of current supplies.

Cotton prices this fall ran slightly above year-earlier levels. Spot prices for SLM 1-1/16-inch cotton averaged about 63 cents a pound during August-November and rose to 67 cents in mid-December.

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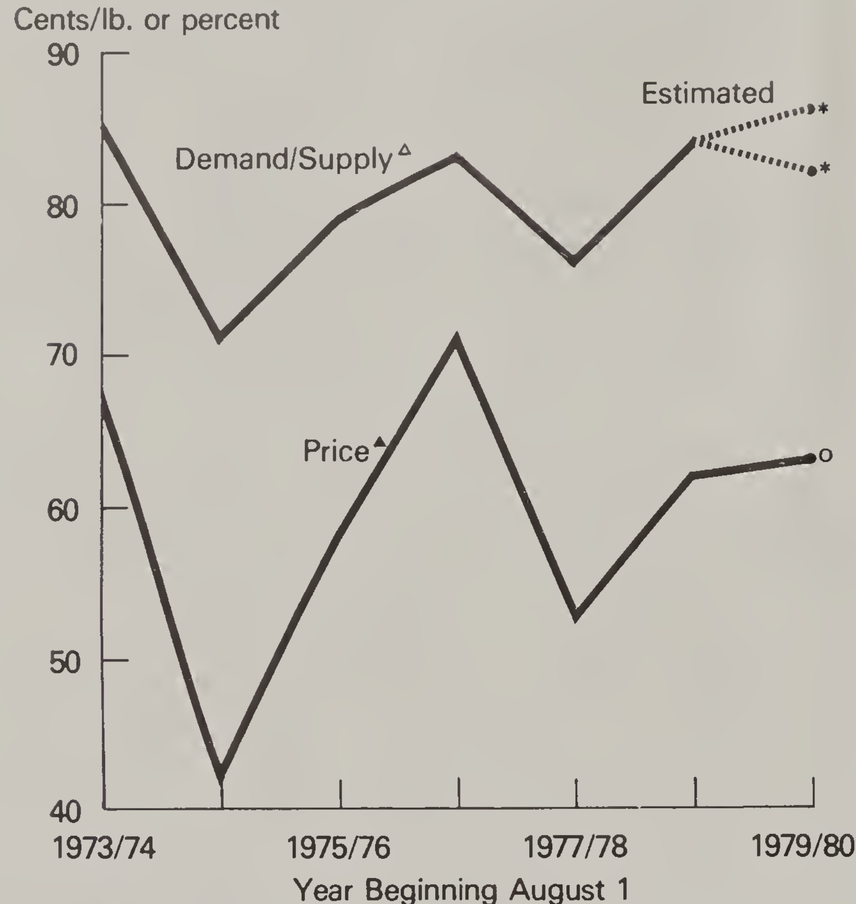
The next cotton newsletter is scheduled for mid-February.

COTTON DEMAND STAYS STRONG



△ Mill use plus export sales divided by total supply.
▲ Average for SLM 1-1/16 inch cotton.
* Likely range based on the December Crop Production report and uncertain world economic prospects.
o Average through November.

Credit for this price strength goes to steady domestic demand and strong foreign demand--particularly from China, which has already bought three times as much cotton as a year earlier.

At the same time, the cotton harvest got off to a slow start. So mills and exporters were scrambling for the available supplies.

Demand Now Key to Prices

Now that there's little uncertainty about the size of the current crop, now pegged at 14.5 million bales, the key to future cotton price movements may well lie in general economic developments here and in cotton consuming nations in the Far East and Western Europe.

While domestic demand is expected to remain strong throughout the first quarter of 1980, high interest rates, double-digit inflation, and declining real incomes could cause mill use to drop below current levels by next spring. Use might then remain relatively weak through most of 1980.

Considering these demand prospects along with the larger cotton supply, it's almost certain that U.S. cotton stocks will rise this season, perhaps by as much as a third over August 1, 1979 levels. The size of this buildup will affect cotton prices for the balance of the current crop year.

Planning for 1980

Some cotton producers have already contracted a portion of their 1980 acreage. Contract prices are generally based on December 1980 futures, which were around 73 cents a pound--for SLM 1-1/16-inch cotton--at mid-month.

Given the uncertainties about future price movements, you may want to consider contracting a portion of your planned 1980 acreage if you haven't already, especially if you are offered a price above your production costs.

STOCKS TO RISE NEARLY A THIRD

	1978/79	1979/80 Projected	1979/80 Range[1]
	Million 480-lb. bales		
Beginning stocks . . .	5.3	4.0	
Production.	10.9	14.5	+0.2
Total supply[2]	16.2	18.5	+0.2
Mill use.	6.4	6.3	+0.2
Exports.	6.2	7.0	+0.5
Disappearance[2] . . .	12.5	13.3	+0.5
Ending stocks[2]	4.0	5.3	+0.6
	Cents per pound		
Farm price	[3]58.8	([4])	
Loan rate[5]	48.0	50.2	

[1] Chances are about 2 out of 3 that the outcome will fall within the indicated range. [2] May not add due to rounding. [3] Average to April 1, 1979. [4] USDA is prohibited from projecting cotton prices. [5] For SLM 1-1/16" cotton.

No Set-Aside in 1980

Largely because of exceptional cotton export demand this season and fairly strong prospects for domestic mill use, there will be no acreage set-aside or diversion program for cotton in 1980.

The 1980 upland cotton program, announced on December 14, contains the following details that may affect your planting decisions:

- The target price will be 57 to 61 cents a pound, compared with 57.7 cents in 1979. The exact level will be determined when final 1979 yields and production costs become available in May. If the national average farm price ranges below the target price, eligible producers will receive deficiency payments to make up the difference.

- If you reduce your acreage by 10 percent or more, you'll receive deficiency payments--if any are made--on your entire acreage.

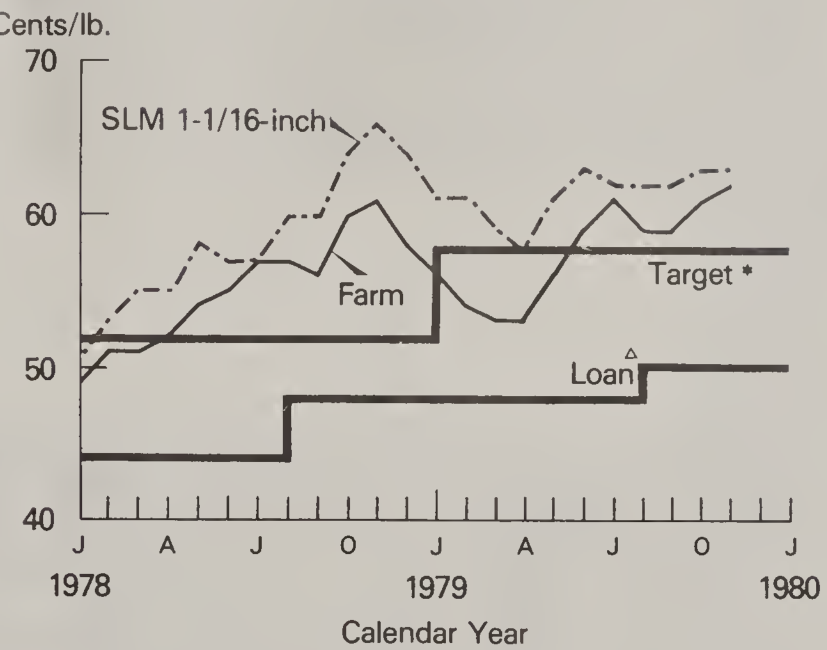
- If you reduce by less than 10 percent, some of your acreage may not be covered. The percent that will be covered will be determined by dividing the national program acreage--11.6 million acres--by the actual acreage harvested in 1980. This ratio is called the allocation factor.

- The loan rate for SLM 1-1/16-inch cotton will be 48 cents a pound, down from last season's 50.23 cents. Under legislation passed by Congress in 1978, the loan rate cannot be less than 48 cents a pound.

Using the Target Price

You can use the target price to help make cropping decisions, but there are some problems. To begin with, the target price is not a guarantee to any single producer: It's compared to a

FARM PRICES STRENGTHEN



* Target price is for calendar year.
△ SLM 1-1/16 inch at average location; for year beginning August 1.

national average farm price to determine if deficiency payments will be made.

If, for example, you sell your cotton at a price higher than the target price, you would still receive a deficiency payment if the national average farm price is less than the target price.

Another problem with using the target price in your cropping plans is that you won't know what portion of your acreage will be covered until actual 1980 harvested acreage is known... unless, of course, you reduce your acreage by at least 10 percent from 1979.

To show how you can use the target price, let's assume that you're a cotton-soybean producer, and that you expect the following prices, variable costs, and yields:

Item	Cotton	Soybeans
Price	?	$6.50/bu.
Costs per acre	$275	$85
Yield per acre	525 lbs.	23 bu.
Cottonseed yield	$40/acre	0

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The market price of cotton needed to make it as profitable as soybeans is calculated this way:

1) Net returns from soybeans:

($6.50 x 23) - $85 = $64.50/acre

2) Costs of producing cotton after subtracting the value of cottonseed:

$275 - $40 = $235/acre

3) The required cotton price:

$$\frac{(\$64.50 + \$235)}{525} = \$.57/\text{lb.}$$

If farm prices at planting time are averaging near or below the target price, you may wish to compare your price "guarantee" with the price needed to break even with soybeans.

Some assumptions are needed to estimate the guaranteed price. First, let's use 59 cents a pound, the midpoint of the 57 to 61 cent target price range for 1980.

Second, let's assume that you sell your cotton at a price about equal to the national average farm price, and that the loan value on your crop is 48 cents a pound.

Finally, let's assume that you can expect target price coverage on at least 90 percent of your acreage. A price of no less than the loan rate is guaranteed on the remaining 10 percent.

Under these assumptions, the guaranteed price is:

($.59 x .90) + ($.48 x .10) = $.579/lb.

In this illustration, the target price makes cotton more profitable than soybeans even if you sell your cotton for much less than the required 57 cents a pound indicated earlier.

Remember, the cotton target price is compared to a weighted calendar year average farm price to determine if deficiency payments will be made.

This works to your advantage: By the time you make your final cropping plans, you will know if national average farm prices have been above or below the target price.

If prices in January-March, for example, are below the target price, you may want to give more consideration to the target price in making your planting decisions. The opposite, of course, is true if prices are above the target price.